

TOWNSHIP OF HENDRICKS  
Mackinac County, Michigan

FINANCIAL REPORT WITH  
SUPPLEMENTARY INFORMATION

Year Ended March 31, 2006

## AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

<b>Local Government Type</b> <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		<b>Local Government Name</b> Township of Hendricks	<b>County</b> Mackinac
<b>Audit Date</b> March 31, 2006	<b>Opinion Date</b> July 10, 2006	<b>Date Accountant Report Submitted to State:</b> July 21, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☒ yes ☐ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

<b>Certified Public Accountant (Firm Name)</b> Campbell, Kusterer & Co., P.C.			
<b>Street Address</b> 512 N. Lincoln, Suite 100, P.O. Box 686		<b>City</b> Bay City	<b>State</b> MI
<b>Accountant Signature</b> Campbell, Kusterer & Co., P.C.		<b>Zip</b> 48707	

TOWNSHIP OF HENDRICKS  
Mackinac County, Michigan

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	2-3
Basic Financial Statements:	
Government-wide Financial Statements:	
Government-wide Statement of Net Assets	4
Government-wide Statement of Activities	5
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	6
Reconciliation of Balance Sheet of Governmental Funds to the Statement of Net Assets	7
Statement of Revenues, Expenditures, and Changes in Fund Balances	8
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	9
Notes to Financial Statements	10-15
Required Supplemental Information:	
Budgetary Comparison Schedule – General Fund	16
Budgetary Comparison Schedule – Road Fund	17
Other supporting information:	
General Fund Expenditures by Detailed Account	18-19
Current Tax Collection Fund Statement of Changes in Assets and Liabilities	20

# CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

July 10, 2006

To the Township Board  
Township of Hendricks  
Mackinac County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Township of Hendricks, Mackinac County, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Township of Hendricks 's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Township of Hendricks, Mackinac County, Michigan as of March 31, 2006, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Township has implemented a new financial reporting model, as required by the provisions of GASB No. 34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments*, as of April 1, 2005.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Township's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Campbell, Kusterer & Co., P.C.*  
CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants

TOWNSHIP OF HENDRICKS  
Mackinac County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended March 31, 2006

The Management's Discussion and Analysis report of the Township of Hendricks covers the Township's financial performance during the year ended March 31, 2006.

FINANCIAL HIGHLIGHTS

Our financial status remained stable over the last year. Net assets at March 31, 2006, totaled \$291,094.07 for governmental activities. Overall total capital assets remained approximately the same.

Overall revenues were \$105,196.69 from governmental activities. Governmental activities had a \$30,642.33 decrease in net assets.

We did not incur any debt.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Township as a whole using accounting methods used by private companies. The statement of net assets includes all of the Township's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Township are reported as governmental activities. This includes the General Fund, the Road Fund and the Current Tax Collection Fund.

TOWNSHIP OF HENDRICKS  
Mackinac County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended March 31, 2006

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Township Board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Township has the following types of funds:

Governmental funds: All of the Township's activities are included in the governmental category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Township's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Township's governmental activities include the General Fund and the Road Fund.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

During the year we expended \$147,717.67 on behalf of Township residents.

Our cash position in the governmental activities remains strong. Our external debt is \$61,820.11.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

The General Fund pays for most of the Township's governmental services. The most significant are highways and streets which incurred expenses of \$47,024.20 and Fire protection of \$21,215.14.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Township's governmental activities invested \$5,242.28 in capital assets.

The Township's governmental activities paid \$10,380.71 of principal on long-term debt.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The future of state revenue sharing is very clouded and it represents a significant portion of our income.

CONTACTING THE TOWNSHIP'S MANAGEMENT

This financial report is designed to provide our taxpayers, creditors, investors and customers with a general overview of the Townships finances and to demonstrate the Township's accountability for the revenues it receives. If you have any questions concerning this report please contact the Township Supervisor at (906)292-5527, Clerk at (906)292-5593, or Treasurer at (906)595-7239.

TOWNSHIP OF HENDRICKS  
Mackinac County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS  
March 31, 2006

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	231 681 59
Taxes receivable	<u>2 644 62</u>
Total Current Assets	<u>234 326 21</u>
NON-CURRENT ASSETS:	
Capital Assets	155 137 39
Less: Accumulated Depreciation	<u>(36 549 42)</u>
Total Non-current Assets	<u>118 587 97</u>
TOTAL ASSETS	<u>352 914 18</u>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
CURRENT LIABILITIES:	
Accounts payable	<u>-</u>
Total Current Liabilities	<u>-</u>
NON-CURRENT LIABILITIES	<u>61 820 11</u>
Total Non-current Liabilities	<u>61 820 11</u>
Total Liabilities	<u>61 820 11</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	56 767 86
Unrestricted	<u>234 326 21</u>
Total Net Assets	<u>291 094 07</u>
TOTAL LIABILITIES AND NET ASSETS	<u>352 914 18</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF HENDRICKS  
Mackinac County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
Year ended March 31, 2006

	<u>Expenses</u>	<u>Program Revenue</u>	<u>Governmental Activities Net (Expense) Revenue and Changes in Net Assets</u>
<b>FUNCTIONS/PROGRAMS</b>			
Governmental Activities:			
Legislative	1 365 68	-	(1 365 68)
General government	37 236 60	2 420 78	(34 815 82)
Public safety	30 864 57	1 301 36	(29 563 21)
Public works	54 476 57	-	(54 476 57)
Culture and recreation	5 428 76	-	(5 428 76)
Other	2 206 99	-	(2 206 99)
Interest on long-term debt	4 259 85	-	(4 259 85)
<b>Total Governmental Activities</b>	<u>135 839 02</u>	<u>3 722 14</u>	<u>(132 116 88)</u>
General Revenues:			
Property taxes			32 458 22
Other taxes			44 393 72
State revenue sharing			14 753 44
Interest			3 179 25
Miscellaneous			<u>6 689 92</u>
<b>Total General Revenues</b>			<u>101 474 55</u>
<b>Change in net assets</b>			(30 642 33)
<b>Net assets, beginning of year</b>			<u>321 736 40</u>
<b>Net Assets, End of Year</b>			<u>291 094 07</u>

The accompanying notes are an integral part of these financial statements.



TOWNSHIP OF HENDRICKS  
Mackinac County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS  
March 31, 2006

	<u>General</u>	<u>Road</u>	<u>Total</u>
<u>Assets</u>			
Cash in bank	195 978 14	35 678 45	231 656 59
Taxes receivable	957 58	1 687 04	2 644 62
Due from other funds	25 00	-	25 00
Total Assets	<u>196 960 72</u>	<u>37 365 49</u>	<u>234 326 21</u>
<u>Liabilities and Fund Equity</u>			
Liabilities	-	-	-
Total liabilities	-	-	-
Fund equity:			
Fund balances:			
Unreserved:			
Undesignated	196 960 72	37 365 49	234 326 21
Total fund equity	<u>196 960 72</u>	<u>37 365 49</u>	<u>234 326 21</u>
Total Liabilities and Fund Equity	<u>196 960 72</u>	<u>37 365 49</u>	<u>234 326 21</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF HENDRICKS  
Mackinac County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
March 31, 2006

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	234 326 21
Amounts reported for governmental activities in the statement of net assets are different because –	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet:	
Capital assets at cost	155 137 39
Accumulated depreciation	(36 549 42)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds	<u>(61 820 11)</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u>291 094 07</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF HENDRICKS  
Mackinac County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –  
GOVERNMENTAL FUNDS  
Year ended March 31, 2006

	<u>General</u>	<u>Road</u>	<u>Total</u>
Revenues:			
Property taxes	10 873 80	21 584 42	32 458 22
Other taxes	44 393 72	-	44 393 72
Licenses and permits	1 301 36	-	1 301 36
State revenue sharing	14 753 44	-	14 753 44
Charges for services – PTAF	1 820 78	-	1 820 78
Charges for services – cemetery	600 00	-	600 00
Interest	2 996 50	182 75	3 179 25
Miscellaneous	<u>6 689 92</u>	<u>-</u>	<u>6 689 92</u>
Total revenues	<u>83 429 52</u>	<u>21 767 17</u>	<u>105 196 69</u>
Expenditures:			
Legislative:			
Township Board	1 365 68	-	1 365 68
General government:			
Supervisor	12 127 00	-	12 127 00
Elections	597 79	-	597 79
Clerk	6 240 13	-	6 240 13
Board of Review	1 213 83	-	1 213 83
Treasurer	7 909 24	-	7 909 24
Building and grounds	1 563 96	-	1 563 96
Cemetery	378 00	-	378 00
Unallocated	6 454 06	-	6 454 06
Public safety:			
Ambulance	4 648 35	-	4 648 35
Fire protection	21 215 14	-	21 215 14
Protective inspection	1 445 33	-	1 445 33
Liquor law enforcement	564 00	-	564 00
Public works:			
Highways and streets	47 024 20	4 974 98	51 999 18
Street lights	2 477 39	-	2 477 39
Culture and recreation:			
Parks and recreation	5 428 76	-	5 428 76
Other:			
Payroll taxes	2 206 99	-	2 206 99
Capital outlay	5 242 28	-	5 242 28
Debt service	<u>-</u>	<u>14 640 56</u>	<u>14 640 56</u>
Total expenditures	<u>128 102 13</u>	<u>19 615 54</u>	<u>147 717 67</u>
Excess (deficiency) of revenues over expenditures	(44 672 61)	2 151 63	(42 520 98)
Fund balances, April 1	<u>241 633 33</u>	<u>35 213 86</u>	<u>276 847 19</u>
Fund Balances, March 31	<u><u>196 960 72</u></u>	<u><u>37 365 49</u></u>	<u><u>234 326 21</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF HENDRICKS  
Mackinac County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year ended March 31, 2006

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS (42 520 98)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,  
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(3 744 34)
Capital Outlay	5 242 28

Repayment of debt principal is an expenditure in the governmental funds, the  
repayment does not have an effect in the statement of activities but does  
reduce the debt balance in the statement of net assets.

Principal payment on long term debt	<u>10 380 71</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>(30 642 33)</u>
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The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF HENDRICKS  
Mackinac County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2006

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Township of Hendricks, Mackinac County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Township contain all the Township funds that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of Hendricks. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Township's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

TOWNSHIP OF HENDRICKS  
Mackinac County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Fund

This fund is used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Fiduciary Fund

The Current Tax Collection Fund is used to account for assets held as an agent for others.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The 2005 tax roll millage rate was 4.3981 mills, and the taxable value was \$7,380,896.00.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

TOWNSHIP OF HENDRICKS  
Mackinac County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets are defined by the Township as assets with an initial cost of more than \$500.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings, additions and improvements	20-50 years
Equipment	4-20 years

Compensated Absences (Vacation and Sick Leave)

Employees are not allowed to accumulate vacation and sick pay.

Post-employment Benefits

The Township provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Accounting Change

Effective April 1, 2005, the Township implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments* (GASB No. 34). Changes to the Township's financial statements as a result of GASB No. 34 are as follows:

A Management's Discussion and Analysis (MD&A) section providing analysis of the Township's overall financial position and results of operations has been included.

Government-wide financial statements (Statement of Net Assets and Statement of Activities) prepared using the full accrual accounting for all the Township's activities have been provided.

Capital assets in the governmental activities column of the Statement of Net Assets include net assets totaling \$118,587.97.

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.

TOWNSHIP OF HENDRICKS  
Mackinac County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2006

Note 2 – Budgets and Budgetary Accounting (continued)

3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated one bank for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>231,681.59</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.



TOWNSHIP OF HENDRICKS  
Mackinac County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2006

Note 3 – Deposits and Investments (continued)

	<u>Bank Balances</u>
Insured (FDIC)	100 025 00
Uninsured and Uncollateralized	<u>135 481 58</u>
Total Deposits	<u>235 506 58</u>

The Township of Hendricks did not have any investments as of March 31, 2006.

Note 4 – Capital Assets

Capital asset activity of the Township's Governmental activities for the current year was as follows:

	<u>Balance 4/1/05</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 3/31/06</u>
<u>Governmental Activities:</u>				
Land	2 001 00	-	-	2 001 00
Buildings and improvement	29 374 00	1 263 28	-	30 637 28
Equipment	56 700 00	3 979 00		60 679 00
Infrastructure to affect long term debt	<u>61 820 11</u>	<u>-</u>	<u>-</u>	<u>61 820 11</u>
Total	149 895 11	5 242 28	-	155 137 39
Accumulated Depreciation	<u>(32 805 08)</u>	<u>(3 744 34)</u>	<u>-</u>	<u>(36 549 42)</u>
Net Capital Assets	<u>117 090 03</u>	<u>1 497 94</u>	<u>-</u>	<u>118 587 97</u>

Note 5 – Pension Plan

The Township does not have a pension plan.

Note 6 – Deferred Compensation Plan

The Township does not have a deferred compensation plan.

Note 7 – Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

TOWNSHIP OF HENDRICKS  
Mackinac County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2006

Note 8 – Building Permits

As of March 31, 2006, the Township had building permit revenues of \$1,301.36 and building permit expenses of \$1,445.33.

Note 9 – Changes in General Long-Term Debt

A summary of the changes in general long-term debt follows:

	<u>Balance 4/1/05</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 3/31/06</u>
Note Payable- Roads	72 200 82	-	10 380 71	61 820 11
Totals	<u>72 200 82</u>	<u>-</u>	<u>10 380 71</u>	<u>61 820 11</u>

Note 10 – Note Payable- Roads

On August 10, 2001, the Township obtained a \$100,000.00 loan from the First National Bank of St. Ignace to fund road construction work. The loan is repayable in nine annual payments of \$14,640.56, including interest at the rate of 5.9% per annum. The annual payments begin on August 10, 2002. As of March 31, 2006, the principal balance outstanding on the loan was \$61,820.11.

Note 10 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	<u>25 00</u>	Current Tax Collection	<u>25 00</u>

TOWNSHIP OF HENDRICKS  
Mackinac County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND  
Year ended March 31, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Property taxes	11 000 00	11 000 00	10 873 80	(126 20)
Swamp tax	44 394 00	44 394 00	44 393 72	(28)
Licenses and permits	800 00	800 00	1 301 36	501 36
State revenue sharing	14 522 50	14 522 50	14 753 44	230 94
Charges for services – PTAF	-	-	1 820 78	1 820 78
Charges for services- cemetery	-	-	600 00	600 00
Interest	2 500 00	2 500 00	2 996 50	496 50
Miscellaneous	6 000 00	6 000 00	6 689 92	689 92
Total revenues	<u>79 216 50</u>	<u>79 216 50</u>	<u>83 429 52</u>	<u>4 213 02</u>
Expenditures:				
Legislative:				
Township Board	2 800 00	2 800 00	1 365 68	(1 434 32)
General government:				
Supervisor	15 810 00	15 810 00	12 127 00	(3 683 00)
Elections	3 000 00	3 000 00	597 79	(2 402 21)
Clerk	9 950 00	9 950 00	6 240 13	(3 709 87)
Board of Review	1 000 00	1 250 00	1 213 83	(36 17)
Treasurer	8 625 00	8 625 00	7 909 24	(715 76)
Building and grounds	3 400 00	3 610 00	1 563 96	(2 046 04)
Cemetery	3 000 00	3 100 00	378 00	(2 722 00)
Unallocated	8 655 00	8 655 00	6 454 06	(2 200 94)
Public safety:				
Ambulance	6 000 00	6 000 00	4 648 35	(1 351 65)
Fire protection	21 000 00	28 000 00	21 215 14	(6 784 86)
Protective inspection	1 000 00	1 500 00	1 445 33	(54 67)
Liquor law enforcement	1 020 92	1 020 92	564 00	(456 92)
Public works:				
Highways and streets	10 300 00	49 300 00	47 024 20	(2 275 80)
Street lights	2 500 00	2 500 00	2 477 39	(22 61)
Culture and recreation:				
Parks and recreation	8 000 00	8 000 00	5 428 76	(2 571 24)
Other:				
Payroll taxes	4 500 00	4 500 00	2 206 99	(2 293 01)
Capital outlay	<u>21 000 00</u>	<u>6 000 00</u>	<u>5 242 28</u>	<u>(757 72)</u>
Total expenditures	<u>131 560 92</u>	<u>163 620 92</u>	<u>128 102 13</u>	<u>(35 518 79)</u>
Excess (deficiency) of revenues over expenditures	(52 344 42)	(84 404 42)	(44 672 61)	39 731 81
Fund balance, April 1	<u>148 569 24</u>	<u>148 569 24</u>	<u>241 633 33</u>	<u>93 064 09</u>
Fund Balance, March 31	<u>96 224 82</u>	<u>64 164 82</u>	<u>196 960 72</u>	<u>132 795 90</u>

TOWNSHIP OF HENDRICKS  
Mackinac County, Michigan

BUDGETARY COMPARISON SCHEDULE – ROAD FUND  
Year ended March 31, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Property taxes	19 000 00	19 000 00	21 584 42	2 584 42
Interest	<u>400 00</u>	<u>400 00</u>	<u>182 75</u>	<u>(217 25)</u>
Total revenues	<u>19 400 00</u>	<u>19 400 00</u>	<u>21 767 17</u>	<u>2 367 17</u>
Expenditures:				
Public works:				
Highways and streets	5 000 00	5 000 00	4 974 98	(25 02)
Debt service	<u>14 640 56</u>	<u>14 640 56</u>	<u>14 640 56</u>	<u>-</u>
Total expenditures	<u>19 640 56</u>	<u>19 640 56</u>	<u>19 615 54</u>	<u>(25 02)</u>
Excess (deficiency) of revenues over expenditures	(240 56)	(240 56)	2 151 63	2 392 19
Fund balance, April 1	<u>27 415 61</u>	<u>27 415 61</u>	<u>35 213 86</u>	<u>7 798 25</u>
Fund Balance, March 31	<u><u>27 175 05</u></u>	<u><u>27 175 05</u></u>	<u><u>37 365 49</u></u>	<u><u>10 190 44</u></u>

TOWNSHIP OF HENDRICKS  
Mackinac County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT  
Year ended March 31, 2006

Township Board:	
Wages	<u>1 365 68</u>
Supervisor:	
Salary	6 000 00
Mileage	580 98
Miscellaneous	960 98
Assessors fees	<u>4 585 04</u>
	<u>12 127 00</u>
Elections	<u>597 79</u>
Clerk:	
Salary	5 799 96
Office supplies	201 67
Deputy Clerk	120 00
Miscellaneous	<u>118 50</u>
	<u>6 240 13</u>
Board of Review	<u>1 213 83</u>
Treasurer:	
Salary	5 799 96
Miscellaneous	349 10
Office supplies	1 640 18
Deputy Treasurer	<u>120 00</u>
	<u>7 909 24</u>
Building and grounds:	
Repairs and maintenance	942 11
Electricity	<u>621 85</u>
	<u>1 563 96</u>
Cemetery:	
Wages	<u>378 00</u>
Unallocated:	
Tax roll preparation	904 10
Audit fees	900 00
Bank charges	61 81
Publications	401 65
Insurance	3 806 00
Dues and conventions	<u>380 50</u>
	<u>6 454 06</u>
Ambulance	<u>4 648 35</u>

TOWNSHIP OF HENDRICKS  
Mackinac County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT  
Year ended March 31, 2006

Fire protection:	
Wages	1 200 00
Insurance	5 230 00
Heat and lights	3 163 71
Fuel	1 280 38
Telephone	638 19
Mileage	1 575 49
Miscellaneous	1 432 98
Repairs and maintenance	329 92
Supplies	6 364 47
	<u>21 215 14</u>
Protective inspection	<u>1 445 33</u>
Liquor law enforcement	<u>564 00</u>
Highways and streets	<u>47 024 20</u>
Street lights	<u>2 477 39</u>
Parks and recreation	<u>5 428 76</u>
Payroll taxes	<u>2 206 99</u>
Capital outlay	<u>5 242 28</u>
Total Expenditures	<u>128 102 13</u>

TOWNSHIP OF HENDRICKS  
Mackinac County, Michigan

CURRENT TAX COLLECTION FUND  
STATEMENT OF CHANGES IN ASSETS AND LAIBILITIES  
Year Ended March 31, 2006

	<u>Balance</u> <u>4/1/05</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>3/31/06</u>
<u>Assets</u>				
Cash in bank	25 00	173 171 88	173 171 88	25 00
Total Assets	<u>25 00</u>	<u>173 171 88</u>	<u>173 171 88</u>	<u>25 00</u>
<u>Liabilities</u>				
Due to other funds	25 00	173 171 88	173 171 88	25 00
Due to others	-	-	-	-
Total Liabilities	<u>25 00</u>	<u>173 171 88</u>	<u>173 171 88</u>	<u>25 00</u>

# **CAMPBELL, KUSTERER & CO., P.C.**

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA  
KENNETH P. KUSTERER, CPA

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BAY CITY, MICHIGAN 48707

TEL (989) 894-1040  
FAX (989) 894-5494

## **AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS**

July 10, 2006

To the Township Board  
Township of Hendricks  
Mackinac County, Michigan

We have audited the financial statements of the Township of Hendricks for the year ended March 31, 2006. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

### **AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES**

We conducted our audit of the financial statements of the Township of Hendricks in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."



To the Township Board  
Township of Hendricks  
Mackinac County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

### **SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies are described in Note 1 to the financial statements.

### **OTHER COMMUNICATIONS**

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

### **GASB 34 IMPLEMENTATION**

The Governmental Accounting Standards Board issued a new reporting model for governmental units which was required to be implemented for the fiscal year ended March 31, 2006. The implementation of this pronouncement for the Township of Hendricks began with the year ended March 31, 2006. The daily operations and recording transactions did not change significantly, however, the Township is required to maintain additional records for the year end adjustments to the final presentation format.

### **COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY**

Our procedures disclosed the following conditions that we would like to bring to your attention:

#### **SEGREGATION OF DUTIES**

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated March 31, 2006.

To the Township Board  
Township of Hendricks  
Mackinac County, Michigan

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

*Campbell, Kusterer & Co., P.C.*  
CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants